

To the Members of the California State Assembly:

I am returning AB 675 without my signature.

This bill requires businesses with assets over \$10 million to file an “information return” in addition to their tax return with the Franchise Tax Board, to explain the difference between their book income and their taxable income.

The bill imposes significant penalties for any information return that is “incomplete”.

While this bill purports to offer shareholders protection against corporations engaging in tax shelter schemes, it only creates a level of additional bureaucracy and unnecessary costs on top of many significant legal and oversight protections put in place after the Enron scandal.

In response to the public’s outrage over the Enron scandal, significant new laws and regulations were enacted by Congress and the Securities and Exchange Commission (SEC) to protect shareholders and ensure accurate disclosure of earnings on financial statements.

The Sarbanes-Oxley Act of 2002, contains eleven titles and sections governing auditor independence, corporate governance and enhanced financial disclosure. It also requires the certification of financial reports by chief executives and financial officers with enhanced civil and criminal penalties for violations, including significantly longer jail sentences and fines for corporate executives who misstate financial statements.

In 2003, the SEC approved additional reforms for accountability, integrity and transparency for all publicly traded companies, including the use of any non-accepted accounting “tricks” to overstate the company’s financial health.

California passed laws further enhancing this protection and required corporations report to the State Board of Accountancy whenever it restates its earnings.

Requiring yet and additional “information return” be filed with the state is unnecessary and will add costs and burdens to doing business in California without offering protection to shareholders they don’t already have.

For these reasons, I am returning this bill without my signature.

Sincerely,

Arnold Schwarzenegger